

„Investbank” PLC

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BANK FINANCIAL STRENGTH RATING	Initial Rating 4.2009	Monitoring 18.11.2009	Update 03.5.2010	Monitoring 07.12.2010	Update 25.5.2011
Long-term rating:	BBB-	BBB-	BBB-	BBB-	BB
Outlook:	stable	negative	stable	negative	negative
Short-term rating:	A-3	A-3	A-3	A-3	B
BANK FINANCIAL STRENGTH RATING	Monitoring 14.09.2011	Update 19.12.2012			
Long-term rating:	B+	B+			
Outlook:	negative	negative			
Short-term rating:	C	C			

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in EU, registered under Regulation 1060/2009 of the European Parliament and of the European Council. The credit ratings, assigned by BCRA, are recognized in the whole EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other restrictions. The rating scale of BCRA coincides with the scale of Standard & Poor's.

BCRA retains the long-term financial strength rating B+ of „Investbank” PLC and short-term rating C, negative outlook. The officially adopted methodology by BCRA for assignment of a bank financial strength rating is used (http://www.bcra-bg.com/files/file_66.pdf).

To elaborate the report and assign the rating, the information, provided by the rated bank, BNB, NSI, BCRA's database, consultants and other sources of public information is used.

The main factors that determine the functional environment, in which the banks in Bulgaria operate as of the moment of preparation of the rating report, are:

- still unstable recovery of the economy: since the end of 2010 a slight growth of Gross Domestic Product is observed by 0.4% a real annual change rate for 2010 and 1.7%¹ for 2011. For the nine months of 2012 there is a growth of GDP by 0.9%² year on year;
- a slight growth of direct foreign investments in Bulgaria, but still a low investment activity;
- provision of financial resource for financing the activity of the banks mainly through operations on the domestic market;

¹ Data of NSI in advance in 2011

² Data of NSI in advance for the third quarter of 2012

- growth in the size of borrowings, despite the decrease of the interest rate on deposits from the side of the banks;
- preservation of low rates in the growth of crediting;
- delay of the upturn of non-regular loans as of the end of 2011 and the third quarter of 2012.

In August 2012 the shareholding capital of „Investbank” PLC increased through issuing new 29 761 905 shares, which are entirely possessed by Adil Said Ahmed Al Shanfari. Thus he holds 24.93% of the shares of the bank. The bank continues following its strategy for expanding the volume of its activity. Measures are taken to optimize the expenses and the branch network.

At the end of 2011 total capital adequacy registered a growth of 1.3 pp compared to the data for the past year. The growth is determined mainly by the significant decrease of the capital base by 23.5%. The uptrend of the capital adequacy is retained in the nine-month period of 2012 but the value reported by the bank remains lower than the average for the bank system. The indicator Net size of the classified exposures / Capital base registered a decline as of the end of September 2012 in line of a decline in the classified loans, but despite the decline its value remains considerably higher than the average for the bank system. Due to the registered loss the return on equity took negative values.

In 2011 the resource basis of the bank registered an increase of 5.0% year on year, as the growth is entirely in line of the deposits of the individuals and non-financial institutions (a growth of 8.5%). This trend is retained also in the nine-month period of 2012, as in the total deposits the deposits of physical persons are leading. In the structure of the deposits by maturity the

participation of the „watch” deposits increased as of September 2012, though the term deposits prevail.

During the period under review the size of the assets of „Investbank” PLC increased – as of December 2011 by 4.3% year on year, and for the nine-month period of 2012 by another 6.6%. The increase in their size is mainly in line of the investments in government securities (a growth of 63.1% for the period since the end of 2010 to the third quarter of 2012. Their share in the investment portfolio as of 30.09.2012 reached 84.2%. During the update period the gross size of the credit portfolio of the bank did not register significant changes. In 2011 a slight growth was registered within 2.6% year on year, and during the nine-month period a decline was registered by 2.7% compared to the end of 2011. In 2011 the classified exposures increased by 28.7%, but during the nine-month period of 2012 they registered a decline of 11.1% compared to the end of 2011. Net Ratio for generating default registered an increase in 2011, but for the nine-month period of 2012 it is negative in line of the decline in classified loans. The allocated specific provisions and depreciations increased during the whole analyzed period which leads to an increase in the coverage ratios, but their values are lower than the average for the bank system. The Bank registered a high concentration by size of the loans.

In 2011 and during the nine-month period of 2012 the return on interest bearing assets of „Investbank” PLC continued decreasing, as of September it is lower than the average for the bank system, as well as than the average for the banks in the second group. The rate of the interest liabilities of the bank decreased but retained higher than the average for the second group of banks and the bank system as a whole. Gross Interest Spread and Net Interest Margin follow a downtrend. In 2011 „Investbank” PLC registered a negative net financial result which is a reason for the negative value of Ratio „Return on assets”. For the first nine months of 2012r the rated bank continues registering a loss, which increased by 51.4% compared to the registered loss for the same period of 2011.

As of the end of 2011 the indicator $\text{Current assets}^3 / (\text{total liabilities} - \text{equity})$ registered a decrease of 7.99 pp in line of the decline of 29.5% in the size of the current assets. During the nine-month period of 2012 the current assets increased significantly and it leads to a growth of the analyzed indicator by 4.89 pp. Liquidity Ratio registered uptrend during the analyzed

period. As of September 2012 it reached 32.13% compared to 26.11% for the bank system as a whole.

During the analyzed period the assets of the rated bank registered uptrend - 4.3% year on year in 2011 (compared to 4.1% for the bank system as a whole) and another 6.6% during the first nine months of 2012 (compared to 4.0% for the bank system as a whole). Despite the increase of the assets in 2011 „Investbank” PLC went by one position down in the ranking of the banks by the size of assets and took the eleventh position. During the nine-month period of 2012, however, the rated bank left behind „Procredit bank” by size of the assets and took the tenth position in the bank system again. In its strategy the Bank registered the necessity of security of the set growth in the activity of the adequate information systems.

³ Cash and cash balances of central banks + receivables from financial institutions.

	FINANCIAL STRENGTH RATING „Investbank” PLC B+ (outlook: negative) 19.12.2012	
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Main Financial indicators:

(BGN thousand)	9.2012	2011	2010	2009	2008
Balance Sum	1 336 811	1 253 657	1 202 374	1 019 195	1 118 541
Loans and advance payments to clients (gross)	720 222	740 025	721 079	716 650	683 662
Shareholding capital	119 362	89 600	89 600	80 000	70 000
Net Interest Income	10 723	18 818	28 269	35 862	33 838
Profit after Taxes	-10 364	-4 993	1 744	7 742	11 249
Return on assets	-0.67%	-0.40%	0.16%	0.70%	1.03%
Gross Ratio of generating default	11.3%	23.2%	19.7%	25.1%	4.30%
Net Ratio of generating default	-10.8%	17.4%	14.0%	24.0%	4.38%